

**Talking Points for Michael O'Grady**  
**White House Conference on Aging Policy Committee**  
**May 18, 2005**

- Good morning, it is a pleasure to be here to discuss LTC challenges confronting the U.S. and some of the ways HHS is addressing them.
- First, I want to commend the members of the Policy Committee for your work to date; you've put in place the framework for the first White House Conference on Aging of the 21<sup>st</sup> century, a century where we will see the population over age 65 more than double.
- While we know we are living longer, healthier lives, we also know that the number of people needing long-term care will increase, due to the sheer volume of older individuals.
- As the percentage of the population over age 65 increases, there will be fewer informal caregivers – committed friends and family members, who deliver the lion's share of long-term care in the U.S. and in the world.
- I was pleased to see that sessions related to the financing, delivery and quality of long-term care services are prominently featured on the White House Conference agenda.

- I strongly encourage the Policy Committee to incorporate empirical findings into your planning activities and the Conference.
- Toward that end, as I talk, I will mention several ASPE research products; in addition, I want to point you to the ASPE website at [<http://aspe.hhs.gov/>] for more on these and other topics.
- I would like to use our time together today to discuss some activities in which my office is engaged to analyze Medicaid, the largest public payer of long-term care services, and to promote increased long-term care awareness and planning.

## **Medicaid**

- In spite of Medicaid's continued improvement, we cannot rely solely on it to finance LTC for baby boomers.
- Medicaid is not structured to finance such a high proportion of LTC costs for a population of this size.
- Medicaid is unsustainable in its current form.
- The federal and state governments are projected to spend \$5 trillion on Medicaid in the next decade (57% of that by the Federal government).

- The spending on long-term care is disproportionate. For example, 3.4% of Medicaid beneficiaries used nursing home care in 2002, yet nursing home spending accounted for 17% of Medicaid expenditures. Total long-term care spending was 32% of total Medicaid expenditures.
- Medicaid spending is projected to grow at over 7% annually over that period.
- Medicaid has eclipsed education as the top state spending category, 21.9% v. 21.5%

## **Medicaid Reform**

The Administration plans to:

- Keep its commitment to mandatory populations;
- Not block grant the program
- Create flexibility so states can continue to serve optional populations
- Return fiscal integrity to the funding partnership between the federal and state governments

The President's FY 2006 budget included a total savings of \$60 billion in Medicaid over 10 years. There are three key aspects of this proposal:

- Reduce prescription drug costs:
  - Currently, state Medicaid programs are being overcharged for prescription drugs. Using drugs Average Sale Price (ASP) instead of the Average Wholesale Price (AWP) will save \$15 billion of 10 years.
- Ending asset transfers for long-term care—Medicaid was not intended to be middle class benefit.
  - Over the past year, ASPE has supported a project to better understand state Medicaid estate recovery activities. One outcome of that project is a series of briefs, posted on the ASPE website last week.
- Re-Establishing Fed/State Matching Rates
  - Congress recently agreed to a budget resolution to achieve \$10 Billion in savings over 5 years AND to establish a Medicaid Commission.
  - The details about the Commission are still being decided.

## **On-Going Issues**

- The aging of the baby boom generation presents special challenges for public policy in many sectors, including LTC.
- We know that many Americans are not saving enough to live comfortably in retirement. We also know that they may save even less to pay privately for LTC.
- Any measures that will increase the Baby Boomers pre-funding of their own LTC will improve the situation significantly.
- Policies that result in the Boomers funding their own long-term care services, will greatly reduce the possibility of a crushing financial burden for their children and grandchildren.
- In short, public policy around LTC insurance is focused on reaching those baby boomers capable of pre-funding if they start now, but likely to need Medicaid if they do no planning.

## **LTC Awareness Campaign**

- In order to reach a broad cross section of the baby boomers we will need to offer:
  - Education & Awareness
  - A variety of financing mechanisms with incentives
  - A strong Medicaid safety net

- Most Americans remain unaware of their risk or their options for a planning ahead.
- Increasing awareness of LTC planning issues is a necessary precursor to the successful launch of any private or public effort to expand pre-funding.
- This is particularly true of LTC insurance because it requires action years, if not decades, before the need for assistance arrives.
- There are at least 3 key benefits for individuals who purchase LTC insurance—
  - Flexibility – The flexibility to stay at home, go to assisted living, or use a nursing home
  - Choice -- Choice of the provider of LTC services
  - Control -- Control over how much and what kind of services are used
- There are also clear benefits for the society as a whole:
  - With the aging of the Baby Boom, Medicaid will be placed under significant financial pressure.
  - In 2004, total spending on LTC for elderly was \$135 billion,
    - A third of which is Medicaid financed;
  - By 2025, total spending is predicted to increase to \$260 billion.

- By 2050, the population over age 65 is expected to double.
- My office, CMS and AoA have worked together on a pilot project in five states to launch and evaluate a LTC awareness campaign; it started in January.
- The campaign featured a letter from the governor of each state to every resident aged 50 – 70 encouraging planning ahead for LTC (approx 2.5 million).
- In some states the campaigns also featured paid television and radio spots and a follow-up mailing.
- These campaigns represent the first time the federal government has reached out to present and future Medicare beneficiaries with a message about long-term care planning.
- The response rate in the five campaign states has been phenomenal: on average, 8.5 percent of people who received the governors' letters responded by requesting a copy of the "Own your Future" LTC planning kit.
- Neither consumers, the states nor the federal government can afford to allow the baby boom generation to plan for retirement without considering how to pay for LTC.

- The goal of the campaign is to increase general awareness about LTC, and offer information such as:
  - What Medicare does and does not cover
  - The strengths and limitations of Medicaid
  - What mechanisms are available to provide financial protection
- ASPE is funding an evaluation of the campaign to better understand the response rates and the decision process consumers go through in thinking about long-term care planning.
- ([www.ltcaware.info](http://www.ltcaware.info))

### **Administration's LTC Strategy**

- This campaign is a good first step but is only a part of the Administration's overall strategy that also includes:
  - Partnerships for Long Term Care
  - Tax Incentives
  - Careful consideration of the role of Medicaid
- What are Partnerships?
  - Program whereby states change Medicaid eligibility rules or "Spend Down" -- LTC insurance doesn't count.



- Participants buy insurance that covers the cost of their care. If they exhaust their LTC insurance and need to go on Medicaid, they are allowed to keep additional assets equal to the value of the LTC policy.
  - This additional protection of assets increases the value of the LTC insurance for Americans with moderate incomes.
- Only 4 – California, Connecticut, Indiana and New York -- moved quickly enough when Partnerships were allowed, to get programs operational before being cutoff by federal law.
- A decade later, the data is in and now know that Partnership work for consumers and for states.
  - 180,000 policies have been purchased in the 4 Partnership states
  - Only 86 individuals, or .05%, have actually gone on Medicaid
- Partnership programs are an important step in finding ways for public and private financing mechanism to work together. They are not the sole solution.
- If long-term care insurance is to become a major payer for long-term care, it will have to find ways to reach beyond those in the highest income groups.

- In addition to Partnerships, we continue to be interested in development of additional financing options such as:
  - Home equity conversion—80 percent of seniors own their own homes outright; almost half of homeowners over 62 are candidates for using a reverse mortgage for LTC at home.
- A variety of alternatives that combine income support and LTC coverage
- Regardless of what happens to the private market, we know that Medicaid will have a critical role in financing care for those unable to pre-fund or otherwise unable to pay.
- There is a compelling need to preserve Medicaid dollars for those who most need them, and we hope that a reformed private financing market can help us do so.

## **Workforce Crisis**

- The underlying challenge to the entire LTC system is a very real workforce crisis.
- It goes without saying that in order to provide quality care, we need a qualified workforce—which is in very short supply.

- I understand this was a recurring issue during the recent mini-conference on LTC.
- The pool of workers who traditionally enter direct care work is shrinking while demand for LTC services is increasing
- BLS estimates that between 2000 and 2010 the number of personal care aids will increase by 67%; home health aids by 60%; and nursing aids and orderlies by 22%.
- Within the LTC industry there is very high turnover of direct care workers (reasons: challenging work irregular hours, lower pay and benefits, limited career opportunities.)
- My office has made substantial research investments in workforce policy. We have also been collaborating w/ other agencies and departments on a number of fronts.
- Most notably, we have the first nationally representative survey of Certified Nursing Assistants (CNAs) in nursing homes; we are analyzing the data now.
- Paraprofessional workers constitute the backbone of the long-term care industry providing assistance with activities of daily living to over 15 million Americans.

- We face a future labor force imbalance between the demand for long-term care and supply of the paraprofessional workforce.
- Reasons for this imbalance arise from the growing demand for long-term care from the aging baby-boomer generation and recruitment and retention challenges faced by long-term care providers.
- The ASPE-sponsored National Nursing Assistant Survey (NNAS) is a new addition to the 2004 National Nursing Home Survey (NNHS).
- The survey will help us to understand...
  - the characteristics of paraprofessional workers in nursing facilities;
  - why workers remain in the field;
  - how factors such as working conditions, wages/benefits, on-the-job training and career advancement opportunities influence retention;
- It represents the first time the government has collected data on a nationally representative sample of nursing assistants.

- These data will allow policymakers and providers to assess the degree of the expected workforce shortages and design the most effective interventions, whether in training, the work environment or recruitment.
- Approximately 3,000 Nursing Assistants were selected from a subsample of 790 nursing homes or about half of the 1,500 facilities selected to participate in the NNHS. The response rate was quite high – 70%, especially high for this population and given the length of the questionnaire
- Study results are anticipated in May 2006.

### **Consumer Direction/Cash and Counseling**

- Consumer Direction is one response to worker shortages and policy shifts away from agency and institutional models of care. Consumer centered, consumer controlled, community-based LTC provides a new direction and new tools for LTC.
- ASPE, CMS, AoA, and RWJ funded the Cash and Counseling demonstration; the evaluation is ongoing but it has already led to a change in Medicaid policy (Independence Plus waivers).

- Basic Approach
  - consumers receive a traditional assessment and care plan
  - dollar value is assigned to that care plan
  - consumers can choose between managing an individualized budget or receiving traditional agency-delivered services
  - those who choose “cash” are provided with financial management and counseling services
  - the consumer and counselor develop a budget to meet the consumers personal assistance needs.
  
- Results from Cash and Counseling
  - Satisfaction and well-being improved (e.g., fewer falls in experimental group)
  - Enhances rather than replaces informal care; caregivers benefit
  - Increased access to care
  
- Cash and Counseling proves that consumer direction works. It improves satisfaction, enhances quality of life for consumers and caregivers alike, has the potential to save Medicaid dollars, and address challenges of the workforce crisis.

### **To summarize:**

- Our long-term care campaign is designed to present consumers with a consistent state/federal message

about the importance of planning ahead for long-term care.

- Long term insurance is an important tool in providing Americans with choice, flexibility and control during their last few years.
- It's an important tool in helping older Americans to stay in their own homes as long as possible.
- Its time to debug the persistent myths about ample Medicare coverage and the easy availability of Medicaid for long term care. We feel that the campaign is a good start in that direction.
- Its time to think creatively about making LTC work attractive at all levels
- We need to continue approaches to service delivery that empower consumers and their families to direct their own care in a way that maximizes their well being.
- We must continue to assure that the safety net of Medicaid is there for those who truly need it; but the demographic imperative directs us to offer a wide variety of choices to those who can plan for their own future.

- Other important tools in the toolbox:
  - Partnership programs
  - Financial incentives for products that include long-term care coverage
  - Home equity conversion.
- I encourage you to continue working with us to answer research questions that are both of vital interest to the improvement of private insurance products and to the development of a complementary public policy.
- And finally, I am interested in catalyzing discussion among the Policy Committee members, White House Conference delegates and the long-term care community in general about creative approaches that encourage Baby Boomers to pre-fund their own LTC, which in turn could reduce the financial burden on future generations and allow scarce Medicaid dollars to be focused on those with the greatest need.